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OF MICHIGAN

www.ASAMichigan.com

## SB 991 Sales Tax on Core Charges

*NOTE: Since sales tax only pertains to "Parts" and not labor, for the sake of examples below we have not included labor to keep it simple and ALL sales tax is calculated at 6%.*

**PURCHASE:** Repair facility buys a remanufactured starter for \$325.00 that has a core charge of \$50.00. Current sales tax rate is 6%.

Starter	\$325.00
<b>Sales Tax on Starter</b>	<b>\$ 19.50</b>
Core Charge	\$ 50.00
<b>Sales Tax on Core Charge</b>	<b>\$ 3.00</b>
Total Transaction	\$397.50 – charged to customer

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**EXAMPLE 1:** Repair facility returns old starter for refund on Core Charge. What does the customer receive off their invoice?

**MICHIGAN:**

- **\$50.00 deducted** for the Core Charge, State keeps Sales Tax

**OTHER STATES:**

- **\$53.00 deducted** for the Core Charge & Sales Tax on Core Charge

**EXAMPLE 2:** Repair facility has the old starter off of the vehicle and hands it to the parts delivery person when the remanufactured starter is delivered – core is exchanged. What is the final invoice to the customer?

**MICHIGAN:**

Starter	\$325.00
<b>Sales Tax on Starter</b>	<b>\$ 19.50</b>
Core Charge	\$ 0.00
<b>Sales Tax on Core Charge</b>	<b>\$ 3.00 – NOT REFUNDED</b>
Total Transaction	\$347.50 – charged to customer

**OTHER STATES:**

Starter	\$325.00
<b>Sales Tax on Starter</b>	<b>\$ 19.50</b>
Core Charge	\$ 0.00
<b>Sales Tax on Core Charge</b>	<b>\$ 0.00 – REFUNDED</b>
Total Transaction	\$344.50 – charged to customer



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

January 20, 2016

Mr. Raymond A Fisher, III, President  
ASA Michigan  
P.O. Box 10099  
Lansing, MI 48901-10099

Dear Mr. Fisher:

This is in response to your correspondence dated August 14, 2015. Please excuse the delay.

You state that your association represents independent automotive repair facilities in the State of Michigan and for many years you have assisted the mechanical division with regards to core charges and sales tax. Within the past 18 months, some of the parts used in collision repair now have "core charges" on them and many of your collision repair facilities are receiving "push back" from insurance companies because they will not reimburse sales tax for core charges – the candid response is "we have never heard of that in any of the 50 states that we do business in", even though you have provided them the same information used with the mechanical repair facilities.

You request a written response to the following questions/scenarios that you can forward to the industry assisting them in collection of the owed sales tax.

**Question 1:** A bumper fascia is \$400.00 and has a core charge of \$50.00. It is understood under rule 205.15 that sales tax would be on the \$450.00 and NOT credited when the core of \$50.00 is give back. In other words, \$27.00 (at current rate of 6%) would be collected for sales tax.

**Response:** Correct, Michigan statute requires a retailer to collect and remit tax on their total sales price. According to the Michigan General Sales Tax Act, Sec. 1 (1) (d) [MCL 205.51], "sales price" means the total amount of consideration, including cash, credit, property, and services, for which tangible personal property or services are sold, leased, or rented, valued in money, whether received in money or otherwise, and applies to the measure subject to sales tax. Sales price includes credit for any trade-in. In the automotive parts industry a used part traded in is commonly referred to as a "core".

**Question 2:** The very same scenario as above but the repair facility already has the old bumper fascia off and gives it to the parts driver asking them to take the \$50.00 core charge off of the invoice and driver does so. The sales tax would remain on the \$450.00, correct?

**Response:** Correct.

**Question 3:** The vendor decides not to put core charges on any invoice for their customers but provides a letter to the repair facility that states "please return all bumper fascia's to us or you may be liable for additional costs". Does any sales tax liability then exist?

**Response:** Sellers of automotive parts are required to remit Michigan six percent sales tax on the sales price, see Response to Question 1, of the tangible personal property being sold. It makes no difference whether or not the item traded in (core) is presented at the time of purchase or returned at a later time for refund or credit.

If you have any questions, please contact the Technical Services Section at the address or telephone number below.

Sincerely,

Nancy Hill, Senior Analyst  
Technical Services Section



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#### ASA Michigan Survey Sampling:

\$723,252.66 - Mechanical Repair Facility Average Total Sales for 2015

\$329,995.00 - Average Parts Sales from Total Sales

\$ 8,123.08<sup>1</sup> – Average Core Charge Sales for Mechanical Repair Facilities

***IF*** all 9051 repair facilities averaged the same amount in Core Charge Sales as in our example, it would equal \$73,521,997.00 in sales which would result in \$4,411,319.82 in sales tax on cores.

Keep in mind, that the above example already is way above 5485<sup>2</sup> repair facilities in Michigan and probably more like 7,000+, so therefore, the numbers are quite exaggerated

#### Some points to consider when looking at this data:

- Assumption is made that automotive repair facilities know about this law AND pay the sales tax. We found that less than 12% knew about the law – basically out of just over 500 repair facilities questioned, 62 or 63 repair facilities were aware of the law – I am happy to say, they were our members.
- Assumption is based census parts sales, but at no time was data broken down into how many of the 30,000+ parts on an automobile have core charges assessed and of those parts that do, what percentage of them were replaced with a part requiring a core charge
- Michigan is the ONLY state that has this law on core charges that are returned or exchanged. We want us to be like ALL other states requiring sales tax be collected ONLY on parts that do not get returned or are not refundable.

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<sup>1</sup> The average "Non-Refundable Core Charge" was \$273.75, which as in all other 49 states, should be charged sales tax

<sup>2</sup> Per the Business Licensing and Regulatory Division of the Secretary of State, 5485 repair facilities in 2015 did not reach total sales exceeding \$340,000.00. Our average in the example was at \$723,252.66

**Estimating Total Shop Revenues  
Based on Secretary of State's Figures**

Gross Annual Revenue	Fee Category	Number of Facilities Paying Fee*	Maximum per Fee Category
under \$5,000.00	\$25.00	772	\$3,860,000.00
\$5,001.00 to \$15,000.00	\$50.00	455	\$6,825,000.00
\$15,001.00 to \$25,000.00	\$75.00	363	\$9,075,000.00
\$25,001.00 to \$40,000.00	\$100.00	406	\$16,240,000.00
\$40,001.00 to \$60,000.00	\$125.00	462	\$27,720,000.00
\$60,001.00 to \$80,000.00	\$150.00	384	\$30,720,000.00
\$80,001.00 to \$100,000.00	\$175.00	390	\$39,000,000.00
\$100,001.00 to \$120,000.00	\$200.00	346	\$41,520,000.00
\$120,001.00 to \$140,000.00	\$225.00	235	\$32,900,000.00
\$140,001.00 to \$160,000.00	\$250.00	270	\$43,200,000.00
\$160,001.00 to \$180,000.00	\$275.00	210	\$37,800,000.00
\$180,001.00 to \$200,000.00	\$300.00	225	\$45,000,000.00
\$200,001.00 to \$220,000.00	\$325.00	157	\$34,540,000.00
\$220,001.00 to \$240,000.00	\$350.00	179	\$42,960,000.00
\$240,001.00 to \$260,000.00	\$375.00	183	\$47,580,000.00
\$260,001.00 to \$280,000.00	\$400.00	144	\$40,320,000.00
\$280,001.00 to \$300,000.00	\$425.00	101	\$30,300,000.00
\$300,001.00 to \$320,000.00	\$450.00	109	\$34,880,000.00
\$320,001.00 to \$340,000.00	\$475.00	94	\$31,960,000.00
over \$340,000.00	\$500.00	3,566	\$1,212,443,566.00
	<b>TOTAL # of Shops</b>	<b>9051</b>	<b>\$1,808,843,566.00</b>

\* Information provided by the Business Licensing & Regulatory Division